Weekly Economic Review

Lower food prices further dampen inflation

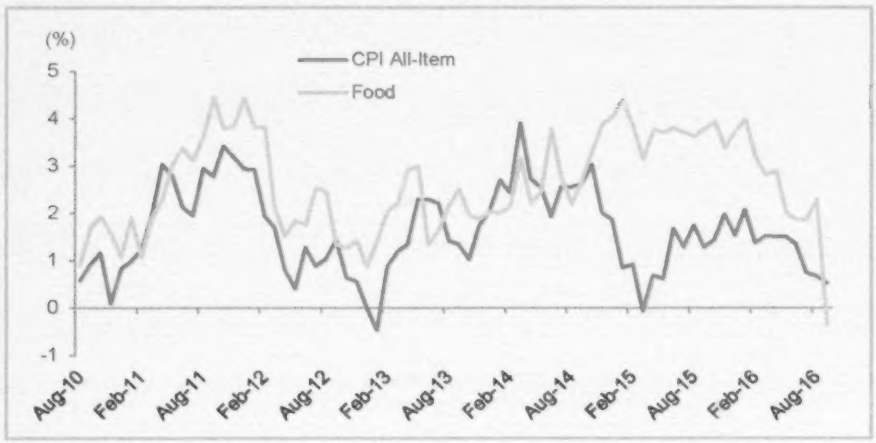
Consumer Price Index

Inflation wanes for the sixth straight month

Inflation in Alberta decelerated for the sixth straight month, with consumer prices up a mere 0.5% year-over-year (y/y) in September. Inflation for food items fell for the first time since early 1994, weighed down by prices for fruits (-3.5% y/y) and vegetables (-2.5% y/y). Prices for fresh and frozen meat (-2.6%y/y) also declined as farm gate prices for cattle remain low. The softer housing market has also weighed on rents (-1.9% y/y), while lower energy prices have resulted in weaker gasoline prices (-8.3% y/y) as well as lower costs for electricity (-8.3% y/y) and natural gas based home heating (-4.5% y/y). Sluggish sales have also led to reductions in prices for most discretionary consumer goods and services like apparel and footwear (-0.5% y/y), recreational equipment (-3.0% y/y), home entertainment products (-1.5% y/y) and travel accommodations (-8.3% y/y).

Chart 1: Food prices deflate for the first time in decades

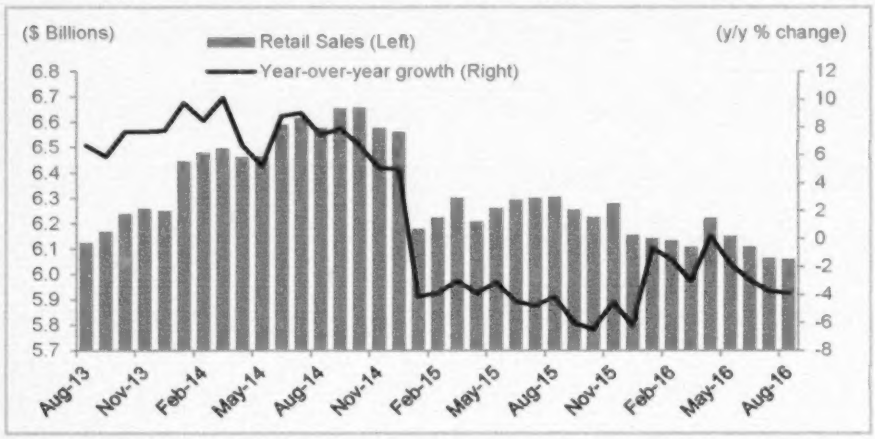
Alberta Consumer Price Index, All-Item and Food



Source: Statistics Canada

Chart 2: Consumers continue to rein in spending

Year-over-year growth and value of Alberta retail sales



Source: Statistics Canada

Retail Sales

Retail sales still sluggish

Weaker economic conditions continue to hamper consumer spending in Alberta. Retail sales fell slightly in August to $6.1 billion. Sales declined in several categories such as food and beverage (-5.8% m/m), furniture stores (-2.0% m/m) and clothing and accessories (-2.2% m/m). These outweighed the gains in some durable consumer items like motor vehicle and parts (+12% m/m), building materials and garden equipment (+6.2% m/m), home furnishings (+7.4% m/m) and health and personal care products (+5.1% m/m). Despite being fairly steady in recent months, retail sales remained down 2.2% year-to-date.

Employment Insurance

EI claims retreat but remain elevated

After a spike in July, the number of Employment Insurance (EI) claims across the province fell to 34,300 in August as the impact of last month's EI rule changes wore off. Despite the monthly decline, the number of EI claims still topped thirty thousand for the eleventh straight month and was up 21% y/y. Similarly, the number of people receiving regular EI benefits also dropped to 86,570 but remained high

(+62% y/y). Workers in Calgary and Edmonton accounted for about two-thirds of recipients.

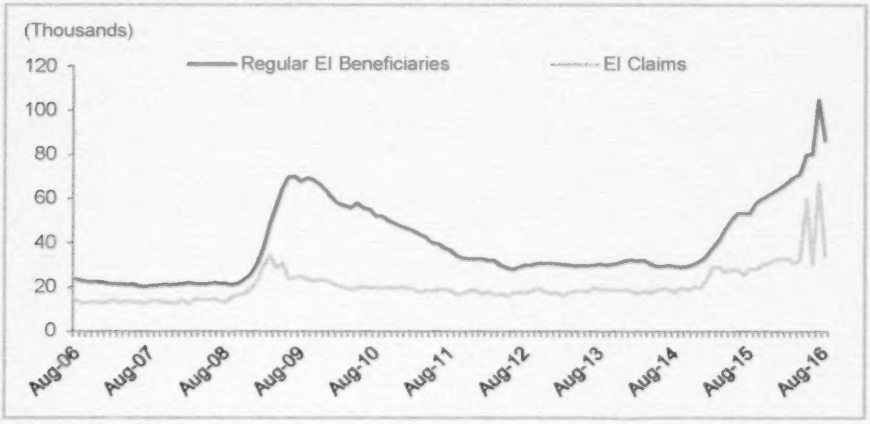
Manufacturing Shipments

Manufacturing shipments improve but remain weak

Alberta's manufacturing sector appears to be gaining some traction. After a slight dip in July, manufacturing shipments rebounded 2.2% m/m to $5.2 billion in August. The increase was largely driven by strong growth in major categories such as food (+2.2% m/m), petroleum and coal (+1.3% m/m), and chemical manufacturing (+4.2% m/m). Other smaller categories also saw substantial gains including plastics and rubber (+9.7% m/m) and non-metallic minerals (+8.4% m/m). Despite the improvement in recent months, the manufacturing sector remains weak with shipments down 12.4% year-to-date. However, the year-over-year declines have been easing since late last year.

Chart 4: EI claims, beneficiaries decline following a temporary surge in July

Alberta Employment Insurance Claims and Regular Beneficiaries



Source: Statistics Canada

Chart 4: Manufacturing shipments pick up

Year-over-year growth and total value of Alberta manufacturing shipments

Sources: International Monetary Fund

Travel

Weak Loonie boosts tourism

Alberta's tourism sector continues to benefit from a weak Loonie. In August, 147,166 people from other countries entered Alberta, 18% more than the previous year. US visits remain strong as the number of US citizens entering Alberta (+12% y/y) and the number of same-day travel of US citizens via car (+15% y/y) both increased. Visits from non-US residents also remain elevated after spiking during the summer and were up 31% in August, the largest year-over-year increase in nine years. Conversely, a weak Loonie and slower economy are still discouraging Canadian tourists from travelling abroad. The number of Canadian tourists returning through Alberta was down 6.4% y/y to 218,989 due to less travel to the US (-3.8% y/y) and other international destinations (-12% y/y).

Bank of Canada

BoC trims growth outlook

The Bank of Canada maintained its overnight interest rate at 0.5%, unchanged since July 2015. At the same time, the Bank reduced its growth forecast for the Canadian economy from 1.3% to 1.1% for 2016 and from 2.2% to 2.0% for 2017. The Bank cited a weaker outlook for exports and a pullback in housing activity in the near-term arising from tighter mortgage rules as the main reasons for the downgrade. The Bank expects economic growth to pick up in 2017 on the back of solid household spending combined with support from government spending and improvement in exports.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.